RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Aug. 25, 1999 **LETTER 1285**

THE PICTURE: Here's what I see. The consensus, based on comments I read in the *WSJ* or hear on CNBC, is that the market's merely going through a "normal pull-back," or at worst "a mild correction." And it's all based on the "hot US economy," "low unemployment," "low inflation and the near-certainty that interest rates will be rising just a bit."

Me, I don't see it that way. I have a much different view of what we're in for, but I'm willing to let the market tell me I'm right -- or wrong. So I rely on my own PTI and on Dow Theory. On July 29, the PTI, at 5353, broke below its 89-day exponential moving average. **That placed the PTI in its bearish mode and it constituted a "sell signal."** Those who tune in to my daily website received early news of the "bearish PTI signal."

But what about a confirmation of the July 29 PTI sell signal? Here I turn to the possibility of a Dow Theory bear market signal. This would be the authoritative signal (if it appears, of course) that would tell us that the primary trend of the market has turned down and that we're in a bear market.

The critical lows for Dow Theory purposes are -- for the Transports, the June 25 low of 3316.11; for the Industrials the May 27 low of **10466.93.** On August 4, the Transportation Average plunged below its June 25 low. That constituted **one-half of a bear signal** -- but as every Dow Theorist knows, one half a bear signal is no better than none. It requires BOTH Averages penetrating critical levels to signal a change in trend.

So it's now up to the Dow to either confirm that a bear market is in progress, or, by refusing to penetrate 10466.93, to tell us that the bull market is still in force. My opinion may be interesting, but **the real story will be told by the Averages -- in their own good time.**

Of course, the **advance-decline ratio** has been telling a story on its own -- and the story has been a bearish one. As subscribers know, the advance-decline ratio (which tracks the direction of the **majority of stocks** on the NYSE) topped out on April 3, 1998. Since then the **direction of the majority of stocks has been down.** The ensuing widespread **destruction of values** has been masked by maybe 50 to 75 big-cap, blue-chip stocks. Stocks such as GE, MSFT, CSCO, INTC, MMM, IP, XON, CHV, IBM. Nevertheless, the **price/breadth divergence** has been going on for 16 months, one of the longest and most flagrant in stock market history.

My attitude now is what you might call fateful. As I see it, the direction of the primary trend is sealed -- **it's already set.** The great unconscious of the market knows that we're either in a bear market or we're not -- but believe me, it knows. Unfortunately, you and I don't know -- we have to wait for the Dow to tell the final story.

If my PTI is correct, if a bear market is actually in progress (and here's where my fatalistic attitude comes in), then sooner or later, one way or the other, the Dow is going to break below **10466.93**. It's simply a matter of what may occur before that number is violated.

And you know something -- I don't care what happens between here and Dow 10466.93. Furthermore, I only care about

Aug. 16 DJIA 10973.66; PTI 5331; A-D Ratio +1.18
Aug. 23 DJIA 11100.61; PTI 5329; A-D Ratio +1.25
Dow Yield: 1.56%; Dow Price/Earnings: 26.0
Dow 144-day MA: 10402; Dow 34-day MA: 10959
Dow Times Book Value: 6.56; PTI 89-day exp. MA: 5349
Percentage of Undervalued Blue-chips: 5%
Gold 34-day MA: 259.2

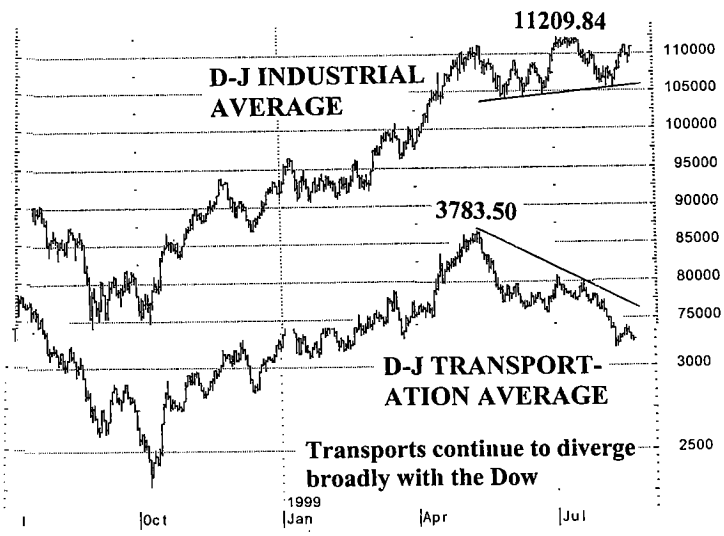
whether 10466.93 is violated or it isn't. I'm patient, I'm pretty much in short government paper, and I'll just wait for the outcome.

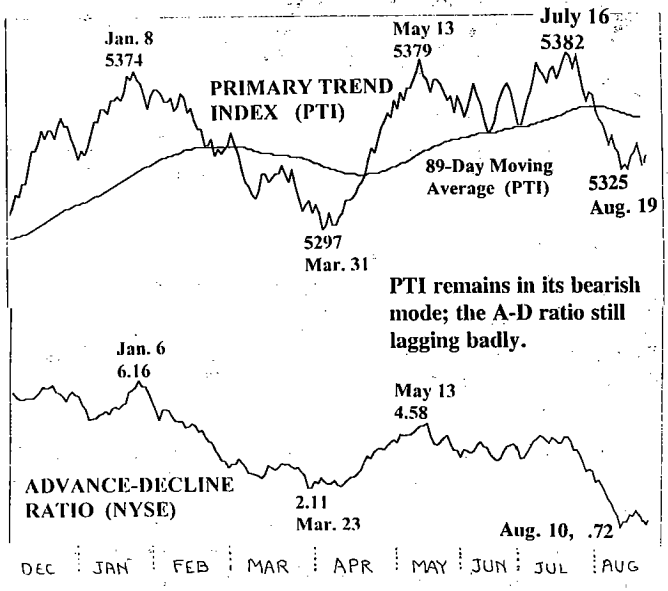
Question: Russell, what if your suspicions are correct? What if this is a bear market? What would that mean for us?

Answer: Half the families in the US now own stocks either directly or via mutual funds. For the first time in history, Americans now have **more of their assets in stocks than in their homes. Americans are also loaded with both stocks and debt.** Thus, the advent of a bear market would exert an extremely negative force on US consumers.

Page 2 includes a chart of the S&P 500. Note that during April though August the S&P formed a "head-and-shoulders" top, with the break of the support taking the S&P to a low in early-October. Nobody seems to be noticing this but another (and very similar) potential head-and-shoulders top is now forming. If my analysis is correct, the market is now working on its right shoulder. The critical level of support is **1265.** If the S&P breaks below that level, below that support, I'd say that a bear market signal on the Dow is almost guaranteed. So keep you eye on (1) a weak right shoulder on the S&P, and (2) if the S&P turns down, the **KEY level of 1265.**

DOLLAR, THE KEY? People forget (1) that the markets today are global and (2) that all US stocks are denominated in dollars. Let me quote from a recent article published in *US News & World Report: "Americans have had a great game going. Workers abroad toiled to produce everything from automobiles to wine, cheese and toys, and dutifully sent container ships full of the stuff to our shores. In return, we have offered them slips of paper with words like 'Treasury bonds' and 'stock certificate' printed on the top. And the really amazing part was, the more of this paper we created, the more cool stuff -- from Lexus GS 400s*



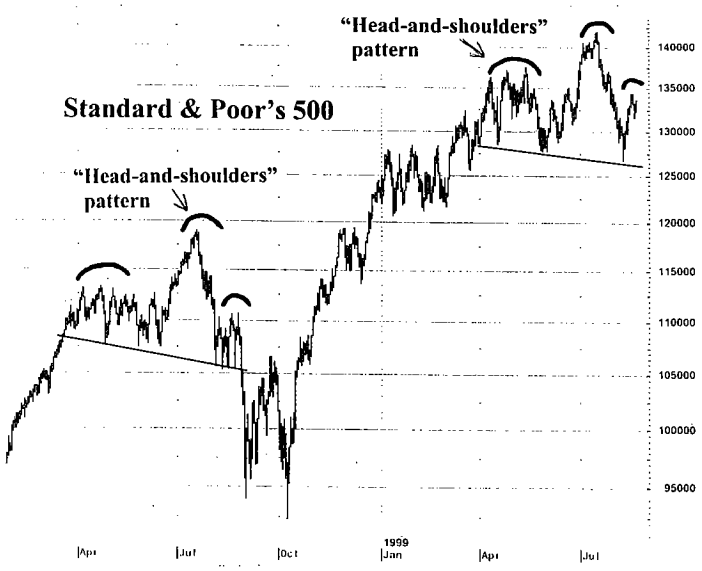


to bottles of cuvee -- foreigners were willing to trade for scraps of paper. In the first three months of 1999, Americans consumed $68.6 billion more in foreign-produced goods and services than they shipped abroad, creating an all-time record trade-deficit."

At current and recent prices, stocks are priced for perfection and, in my opinion, for ultra-perfection. Now the dollar has turned weak and foreigners (who are holding multi-billions of our paper dollars) may be wondering why they should hold carloads of a currency that may be on the verge of a major decline. Result -- the tiny cloud in the "perfection argument" may be progressing from tiny gray cloud to larger black cloud to potential disastrous storm. As I see it, from here on it's a question of the dollar -- and which way the dollar is heading.

Sentiment: I don't think I've ever seen such **utter complacency** in the face of what I consider a potentially dangerous market. The put/call ratios act as if there isn't a hint of trouble The Rydex ratio (traders buying Rydex's bull funds vs. those buying their bear funds) shows almost no bear fund buyers. Not a hint of worry here. Ominous.

Bonds: I continue to believe that the bonds have bottomed. On Thursday, August 19, it was announced that the US trade deficit for June was an horrendous $24.8 billion. In face of this very negative report, the bonds backed off very little. I think the reason the bonds are acting this well is that they're "marching to a different drummer." That drummer is a business slowdown slated for later this year or in the first quarter of next year. By the way, it turns out that Warren Buffett has recently loaded up with $10 billion worth of bonds. He may thinking the same way that I am -- slowing business ahead.



Bershire Hathaway's Bond Holdings Rise

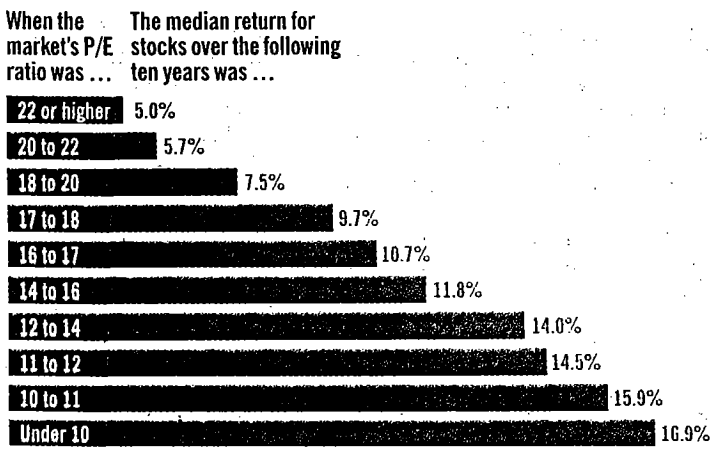
WASHINGTON, Aug. 18 (Bloomberg News) — **Berkshire Hathaway** Inc. increased its bondholdings in the second quarter, as its chairman, Warren E. Buffett, moved to invest almost $10 billion from a cash hoard that had soared since early last year, according to a regulatory filing.

Berkshire, the Omaha holding company controlled by Mr. Buffett, disclosed that its cash on hand dropped to $4.2 billion on June 30, from $14.2 billion three months earlier. Berkshire said its investments in fixed-income securities rose by about $9.3 billion, to a total of about $30.4 billion, in the same period.

GET SERIOUS: Most of what you read in the brokerage reports, the magazines, the *WSJ*, *Barron's*, or what you see and hear on TV, has to do with what stocks to buy or which way the so-called experts think the market is heading tomorrow or next week.

The truth -- very little of this "information" will make you a dime. Another truth -- over the course of a complete cycle (a complete cycle includes a bull market and a bear market) most people lose money. They get in the bull market too late and they exit the bear market too late. By the time it's all over, they'll curse the day they ever heard of the stock market.

Does that sound too cynical? Sorry, but it's the truth. I've been writing these Letters for 41 years and I've heard many hundreds of stories from subscribers and investors and friends the world over. Believe me, by the time a cycle of bull and bear markets has run its course, most people find that their assets are badly depleted. It's sad but true.


When the market's P/E ratio was ...
The median return for stocks over the following ten years was ...
22 or higher 5.0%
20 to 22 5.7%
18 to 20 7.5%
17 to 18 9.7%
16 to 17 10.7%
14 to 16 11.8%
12 to 14 14.0%
11 to 12 14.5%
10 to 11 15.9%
Under 10 16.9%

Do you want to get serious about making money, about coming out ahead in the very difficult business of investing? If you do, you will need two things -- you will need a **knowledge** of how markets work, and you will need **discipline.**

If you run a business, to be successful, you must have a **plan.** The same is true if you run your personal business of investing. You must have a plan -- and one that works. Secondly, you must have discipline, discipline to STAY with your plan no matter what. Most investors that I speak to don't have a plan and they lack discipline. As a result, before the bull/bear cycle is over they've accumulated a long list of losses. They work their fannies off 6 to 9 hours a day to make money and then they give it back to Wall Street. It's really a shame.

I'm including a chart here that may be the most important financial chart you'll ever see (courtesy of *Fortune* magazine). The chart displays a simple truth, a truth so simple that 90% of investors don't get it. This chart forecasts your financial future

predicated on the probabilities. It tells you, based on any given level of price/earnings ratios, what your return on stocks will probably be over the next 10 years. For instance, if P/Es are 14 to 16, your probable return on stocks over the next 10 years will be 11.8%. If P/Es are 22 or higher, your probable return between now and 2009 will be 5% or less.

The P/E ratio for the S&P at its high this year was a record, never-before-seen 36. As this is written the P/E for the S&P is still sky-high at 34.6. **But 34.6 is off the top of the chart.** So what is this P/E telling us? It's telling us that if you buy or hold stocks here, you are probably going to show very little return and very likely a loss over the next 10 years -- or by 2009.

Discouraging? It shouldn't be, any more than if an insurance company's actuarial table tells you that at age 65 the probabilities are that you'll live to be 82. You may live to be 72 or 95, but the insurance companies run on probabilities -- and when's the last time you heard of a life insurance company showing a loss for the year?

OK, now let's get serious. The accompanying table says that if you're buying or holding stocks now you are betting against the probabilities. So what should you do?

My answer -- go to my website (www.dowtheoryletters.com) and re-read the section, "Rich Man, Poor Man (The Power of Compounding)." My suggestion is that you now assume a safe, defensive stance -- buy safe, fixed-income securities and exercise (Dow used this expression) "the patience of 10 men." Once in these nice, safe fixed-income securities, you're now in the compounding business, waiting for the odds (check the accompanying chart) to return in your favor.

And this is where the plan comes in. The plan is to invest with the odds on your side as explained above. How about the discipline? You need the discipline to **ignore everything else**, all the hype, all the hot news, all the tips and rumors and bull market excitement -- to ignore all that and stay with the plan.

So you buy T-bills or two-year or five-year Treasury notes and sit tight until the odds become favorable again. How long will that take? Who cares. Are you looking for excitement or are you trying to make money? Discipline, discipline, discipline, which means sticking like grim death to your plan.

INVESTMENT POSITION: *"A time to get, and a time to lose; A time to keep and a time to cast-away"* -- Ecclesiastes 3:1.

From a Dow Theory standpoint, it's a bull market until proved otherwise, and so far there's no "otherwise" proof. But because my PTI is bearish, I'm putting in a very small bull in the box plus a question mark. That's as close to the picture as I can get.

Earnings can please or disappoint, and next year's earnings are always a matter of guessing. But dividends are a **fact** -- they represent real money coming in on a regular basis. Furthermore, once a corporation establishes a dividend, it wants to hold that dividend and it thinks long and hard before cutting it.

Stocks are now providing little or nothing in the way of dividends (yield on the S&P 500 is now 1.3%). Thus, even if stocks mill around in this area (rather than declining) investors buying or holding shares are receiving next to nothing. With yields at current historic lows, **stocks must advance or they're** just tying up money. Therefore, a trading range, and certainly a decline, would both represent liabilities for stock holders.

This is the danger of what I term the "dividend-less" stock market. As soon as your no-yield stock stops going up, it becomes a liability. In contrast, if I'm receiving a 5% or a 6% dividend, I don't mind sitting with a stock that's simply working sideways or even correcting (of course, a full-fledged bear market is a horse of a different color, and when indications of a bear market appear, I want to be out of all stocks).

NOTES & QUOTES: Gad, I got a shocker. An article in the August 17 *USA Today* stated that there are only 6.3 million World War II vets still alive, and that more than 30,000 of them (us) die every month. That means that only 2.4% of the US population is made up of WWII vets. And maybe 1% of the population is made up of WWII combat vets. I hesitate to admit it, but WWII was the defining period of my life. I grew up during the Depression, but that wasn't too difficult, because I had never known good times anyway. The War, that was different, that was a total uprooting, it was survival, it was literally kill or be killed. I doubt if any of us ever got over the horror and fear of combat. That war changed us even more than the Depression did. The article quotes one ex-solder as saying, "I thought I was going to get killed. So when you think of that, it puts things in perspective very quickly. And for the rest of your life, too." The article states that most of us "will be gone by 2008." Me, I think to myself, "I've beaten the odds so far, and I think I can beat the 2008 odds too. I'm still here, damn it."

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Back to the market: Talk about concentrated value. Microsoft, Intel and Cisco comprise **23.4%** of the entire value of the Nasdaq. Of course, this tends to increase the volatility of the index. You almost say, "If MSFT and CSCO are up, the Nasdaq will be up." Ridiculous, but that's why I watch the breadth.

* *

Everyone is concentrating on the inflation situation. To me, it's a joke. The Fed is still pumping out money like crazy, and frankly, I don't see any price stability except in computers and tech equipment. On a year-to-year basis, all the things I buy are going up. We just cut out delivery of filtered water. We got tired of paying over five bucks a week for "designer water." So now we're drinking regular San Diego water out of the faucets --- so what if we get a few more calories, minerals and vitamins.

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The Dow is a price weighted average rather than a capitalization weighted average. But problem -- it's easier for a higher priced Dow stock like IBM to surge 5 points than it is for a lower priced stock such as Boeing to surge 5 points. Yet each point in a Dow stock is worth roughly 5 points in the Dow. Why does Dow-Jones figure its Average this "old-fashioned" way? Here's the answer, and only one out of a thousand realize this. The reason is that originally when Charles Dow composed his Averages, he had to figure the price each day with a pencil and paper -- add them up manually and then divide them by the number of issues traded. This is why the pro traders prefer the S&P 500, which is capitalization weighted (and thus traders feel it gives them a better picture of the market). The amazing phenomenon, however, is how closely the Dow and the S&P have moved together over the years.

* *

What seems to be changing in the markets is **capital flows.** For instance, with recent dollar weakness, money has moved out of the US to overseas destinations. During the first quarter, foreigners sold a net $17.3 billion of US Treasuries. Hoping to boost the Treasury market, a few weeks ago the Treasury announced that starting in the year 2000 they would be buying back some of the trillions of dollars worth of outstanding US debt. What will they buy it back with? Why, they'll buy it back with some of the money that will come in via the projected budget surpluses.

* *

After the tragic shooting in Atlanta, in which the shooter had lost half a million dollars day-trading, a great deal of fuss is being made about day-trading. A seven-month study by North American Securities Administrators makes the remarkable "discovery" that those who practice day-trading are likely to lose not only some of their money but very possibly their entire

investment portfolios. According to the report, there are about 287 day-trading offices in the US serving between 4,000 and 5,000 traders. **Russell Comment:** How is it that the "authorities" are suddenly all hot and bothered about day-trading? C'mon, day-trading is just another form of gambling -- and gambling has spread across the nation like wild-fire. The states and the government collect fat taxes on gambling. But they don't do that well with day-trading. My opinion -- let the day-traders trade. Mathematics will take care of them -- via the process of systematic destruction via the odds.

* *

My old friend, Joe Granville, dug this up from Geoffrey Pererett's book, "America in the Twenties." It sounds eerily familiar, don't you think? *"There seemed endless ways to get rich. New securities gushed forth, more and more each year. New issues amounted to $30 million a month in 1926; up to $800 million a month in 1929. Many of the choicest offerings barely trickled down to the ordinary shareholder, because the banks which handled them built up 'preferred lists' of people they would like to please -- such as Coolidge, Raskob, Baruch, McAdoo, Lindbergh. Not only were the chosen few given first choice of each plum offerings, they would buy their shares at a lower price than the ordinary players of the game who were hanging around the boardrooms sweating with excitement. A Johns-Manville offering of 1927, for example, went to preferred customers for as little as $47.50 a share, while what was left over went to the general public at $70 a share."* **Russell Comment:** Don't they say that there's nothing new under the sun? The only difference between '29 and '99 is that today the mark-ups to the public are far more flagrant. And at least in '29 they were dealing with stocks that were actually showing a profit [Granville Market Letter, (800)876-5388].

KENNEDY'S ESTATE

$20 million — inherited from his father and other family trusts.
$10 million — John's half share of mom Jackie's estate on Martha's Vineyard.
$38 million — from the sale of the Chicago Merchandise Mart.
$4.75 million — from the sale of Jackie's Fifth Avenue apartment.
$2 million — John's share of his mom's New Jersey home and the value of the house on the Kennedy compound in Hyannis Port.
$408,000 — John's share of the sale of the Kennedy's Palm Beach home.
$2.5 million — John's Tribeca loft.
$5 million — John's share of the famous Sotheby's auction.
$9 million — John's stock portfolio.
$18 million — value of family heirlooms, artwork and jewelry.

$109,658,000 — Estimated Total Value

* *

Not that anyone is that interested (I was), but *Star* magazine researched the background of Kennedy money, and here's what John Kennedy, Jr. left behind when he died in a plane crash.

* *

People are moving into Las Vegas at the rate of 75,000 a year and this requires opening a new school every month. Why Las Vegas? Plenty of jobs and low taxes. The average Las Vegan pays $1,889 in sales and other taxes while collecting $6,102 in various government services. Item: Vegas now boasts 11 of the 12 largest hotels in the world (the biggest is in Thailand). Las Vegas gets only 4 inches of rain a year and the winters can be quite cold, which is why no Cacti grow in the area (I know because I've been a Cactus collector ever since I was a kid). Casino revenues have financed this state for years but now more revenue comes in from non-casino sources, and the big hotels are depending increasingly on non-gambling families rather than the big shooters. But don't discount gambling. In 1998-99 the Nevada gaming take increased 7.9% from the previous year -- the total haul for the state was $8.5 billion. New monster hotels: the Bellagio opened in October, Mandalay Bay in March and the Venetian in May.

* *

The poor old NFL. It's dying to put a new team in the LA area, but it wants LA to come up with $150 million in public financing. LA won't put up a nickel, and it's telling the NFL, "You guys want to put a team here -- then pay for it; it's our way or the highway." So the standoff goes on. Actually, LA is fed up with NFL teams that move in, then move out, and besides, LA's huge Latino population is more interested in soccer than football. Most Angelinos are also worried about the additional traffic tie-up that Sunday football games would bring in.

* *

With gambling everywhere, the problem of compulsive or degenerate gamblers is growing. The American Psychiatric Society lists the following classic symptoms of compulsive gambling (and this probably also applies to compulsive day-trading): (1) A preoccupation with gambling, a penchant to constantly relive past experiences while handicapping the next bet. (2) A need to continually raise the stakes to "achieve the desired excitement." (3) Using gambling as a way of escaping problems or relieving depression. (4) Failing again and again to control the urge to gamble. (5) Breaking the law (fraud, embezzling, check kiting, etc.) to cover gambling debts. (6) Jeopardizing a job or relationship because of gambling. Says the APS, as with any addiction, compulsive gambling is a very difficult problem to fix. And casino workers, who are after all in the business of encouraging betting, find intervention a very dicey proposition.

* *

Are Americans the world's biggest spenders? A run-down on the spending per capita of various nations is instructive. Here are a few (these are retails sales per person): Brazil -- $1.4 thousand per person; Canada -- $4.2 thou.; Finland -- $5.2 thou.; France -- $5.6 thou.; Germany -- $5.6 thou.; Italy -- $5.5 thou.; Japan -- $10.4 thou.; S. Africa -- $.07 per thou.; S. Korea -- $1.5 thou.; Spain -- $2.9 thou.; Sweden -- $4.7 thou.; Switzerland -- $7.4 thou.; UK -- $5.4 thou.; US -- $6.3 thou. The winning spenders -- Japan.

* *

China is in a deflationary spiral that has been in effect for 22 months. The government has done everything it can to turn things around -- everything short of devaluation (which is becoming a major possibility). In the last three years, the Chinese government has cut interest rates three times, they've loosened consumer credit, pumped up the stock market, boosted lending and even proposed a tax on personal savings in an effort to get people to spend. Despite all, China is still dealing with declining prices, huge inventories, declining demand and declining consumer confidence. Major arguments against a Chinese devaluation: (1) A devaluation might spiral out of control. (2) The G-7 might respond by barring China from the World Trade Organization. (3) Beijing's pride would suffer, particularly since this is the 50th anniversary of the Communist takeover. (4) A collapsing yuan would frighten investors and whack China's neighbors, who are still trying to recover from the recession of the last few years. **Russell Comment:** Despite all these arguments, in the end China will do what is best for China. And China's dictators already feel under siege.

* *

The banks are still begging people to borrow and spend. Last year 2.7 billion credit card solicitations were mailed, compared to less than 1 billion in 1992. And this is really amazing: one-third of businesses with fewer than 19 employees use credit cards as a way to fund themselves -- nearly double from 17.3% in 1993, according to a recent study by Arthur Andersen's Enterprise Group. And why not? Getting money via a bank loan from the bank is not always easy, but getting a loan via your credit card is a no-questions-asked proposition.

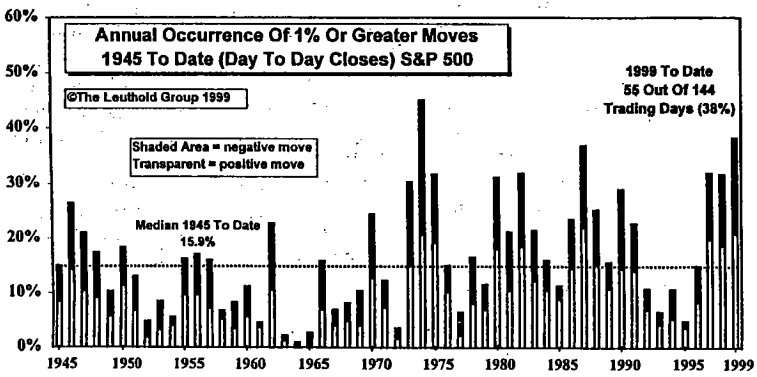
* *

The whole publishing world is buzzing about the new magazine, *Talk*, edited by the queen of buzz, Tina Brown (ex-editor of the

New Yorker and *Vanity Fair*). I was a little surprised by the new mag. It's not glossy, it's obviously modeled after one of the European mags such as *Paris Match*, and frankly, I found the "look" unattractive. Also, there's just too much writing, I can't see anyone wading through all this stuff. But to be fair, this is the initial edition. So far, I'd give the mag a C, barely.

* *

This chart shows market volatility or the occurrence of daily moves of 1% or more. Question: What causes high volatility? The answer is indecision on the part of investors, plus illiquidity. And those two are what we have in the market today. If there was more liquidity in the market, the daily differences in opinion would not set off such drastic moves. But this is basically an illiquid market. And it makes me wonder what will happen if the bear takes over in earnest (illiquid declines = BIG declines).



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Getting people on the Internet is becoming a very competitive proposition. NetZero started the "for free" parade by offering (a year ago) free Internet access if you are willing to sit through all the ads. Now Alta Vista (owned by Compaq) has entered the free access picture. What you have to do is provide consumer demographic info by completing a brief survey about your e-commerce interests. Users can fill out the survey and download the service at Alta Vista's web site. Why is Alta Vista doing this? They're doing it to build up a large site following. **Russell Comment:** The race is in high gear to capture viewers on the net. All this is putting increasing pressure on America Online, which hits viewers with a monthly charge. In the end, I believe the Internet will be offered free to most viewers, and the object will be to collect money via advertising or through the selling of products directly to the consumer or by selling information (the latter is going to be very difficult, since so much free information is already being offered on the net). What about Dow Theory Letters? Ah, that's different -- I use my website as an extra free service for my regular full-term subscribers; the net allows me to provide a daily commentary on the market. There's no money in the net for me; but it does provide my subscribers with extra value, and it allows me the **satisfaction** of giving my subscribers up-to-date information five or six times a week.

* *

Madonna is suing her former financial advisors after she was forced to pay $2 million in back taxes to the state of NY. In 1992, Madonna had claimed residency in California, but alas, she had a home in NY, and as long as you spend more than 183 days in NY the state considers you a resident. New York (and CA) are famous for pursuing tax exiles, especially those who have homes in Florida (which has no income tax) and which harbors a lot of retired New Yorkers. New York tax people have been known to bribe doormen to get information on whether a person has spent time in the city. My former neighbor left California for S. Carolina and the state of California hounded him for many months claiming he owed the state back taxes. Last I heard, the poor guy gave in.

* *

Who was the ultimate hedger? I nominate the famous philosopher skeptic, Blaise Pascal. Pascal held that since he could neither prove nor disprove the existence of God, the safe stance was to act as if God did indeed exist. If God didn't exist, no harm was done -- Pascal would at least have lived a moral and exemplary life. If God did exist, Pascal would enjoy eternal life in heaven. Hell was simply too horrible an outcome to risk a denial of God's existence.

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In view of the current near-hysteria to make the big bucks and to become a billionaire overnight via your very own IPO, I've borrowed a story from Steve Leuthold and shortened it and changed it a bit. **Story:** An investment banker on a quick, two-day vacation in New England stopped his Mercedes SL500 by the side of a country road to check his tires. He noticed a fellow walking along the road carrying a fishing rod. On a whim, the banker asked the fellow where he was heading. "Over yonder to that lake; I'm going to do some bass fishing." On a further whim the banker asked the fellow, "What do you do for a living?" The fellow answered, "Well, I've developed my own method of growing lobsters on my farm. I sell these lobsters to my neighbors for a living."

The banker was both skeptical and fascinated, and he asked if he could see the lobsters. They walked back to the fellow's farm, and sure enough there were three deep ponds, and they were alive with lobsters. The banker was amazed -- he'd never seen so many fat, happy lobsters. "How do you spend your time?" asked the banker. The fellow replied, "Aside from selling these here lobsters, I do some fishing, I play with my kids, I take vacations with my wife, and I do some reading." The banker, still excited said, "I happen to be an investment banker. You may not know it, but you've got a gold mine here. With my help, you could build up this business. You could incorporate. Then we build up our volume. Finally, we could bring out an IPO and in all likelihood become multi-millionaires. Of course, to do all this the right way would take time -- maybe 15 to 20 years. But at the end of that time you could retire."

"What would I do then?" asked the fellow, who seemed vaguely interested. The banker answered excitedly, "You could do some fishing, you could play with your kids, you could vacation with your wife, and you'd have time for some reading."

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Question: When did all this blather and baloney about "beating or not beating analysts' expectations" start? I guess it started a few years ago, and what it does is -- it gives the talking heads on TV a never-ending supply of junk to talk about. I also think that the "analysts' expectations" nonsense has to do with the current super-high valuations on stocks. When stocks in general offer no yields, you are reduced to hoping that your stock will rise on news. Thus, the beating or not beating of analysts' expectations constitutes a source of "hot news" that is always available. Remember, the newspapers and the TV stock market shows must offer news; that's their business.

In the "old days," when a great many stocks provided attractive yields, investors were mainly interested in whether their stocks adequately covered the dividends. With many stocks yielding 6% or better, you were happy if the stock would just stay in a price range while paying out that fat dividend. As far as capital gains, if there were any, that was a bonus.

During the Great Depression, the only two stocks that my father would own were Woolworth and American Telephone. Why? Because their dividends were never in question. As a matter of fact, I guess that most famous dividend in stock market history was the nine-dollar dividend that was paid by "Ma Bell." That nine dollar dividend carried many stock-holders through the Depression. Old-timers will never forget that famous nine-dollar dividend that was literally guaranteed by AT&T.

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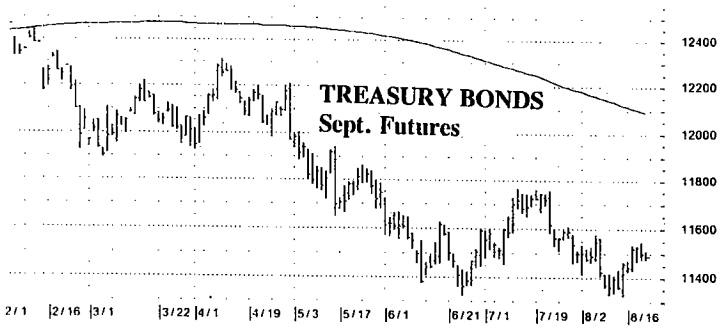
The word I get from my many friends in NYC is that Hillary's "popularity" is sliding down-hill in the big city -- and fast. The NYC publications, many of them Democrat, couldn't stomach the "revelation" that Hillary's grandfather (or was it her

grandmother?) married a Jew. *Crain's New York*, an insider NY publication, featured a cartoon of a confused Hillary trying to choose between the Mets and the Yankees while moaning, "Oy vey!" Hillary's problem -- she's blatantly ambitious, and she's a chronic manipulator -- and she's from "out of town."

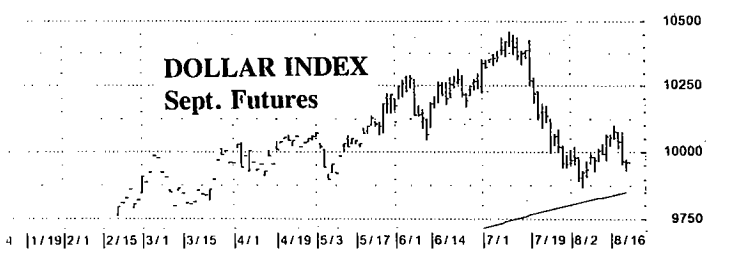
As for Gore, he's sinking as Bradley is rising. Maybe all those cartoons of a wooden Gore mumbling away while woodpeckers peck at his leg were too much for him. At any rate, I'm increasingly skeptical about Gore receiving the Democratic nomination. I don't think the Dems believe they can win with Gore. On top of everything else, Gore is carrying too much Clinton baggage.

Meanwhile, Bush is having his troubles with what he may or may not have done in his younger days ("was it cocaine or just pot?"), while Forbes appears to be doing better. Also, Bush has not yet revealed what he stands for, while Forbes has a very clear agenda. Personally, I'd like to see a Forbes presidency, since I believe Forbes is by far the smartest of all the candidates, Republican or Democratic. I'd love to see a Forbes-Bush or a Forbes-Dole ticket. If only Forbes had more sex appeal. Like it or not, in America the tallest and the sexiest candidate often wins -- and remember, half the voters are women.

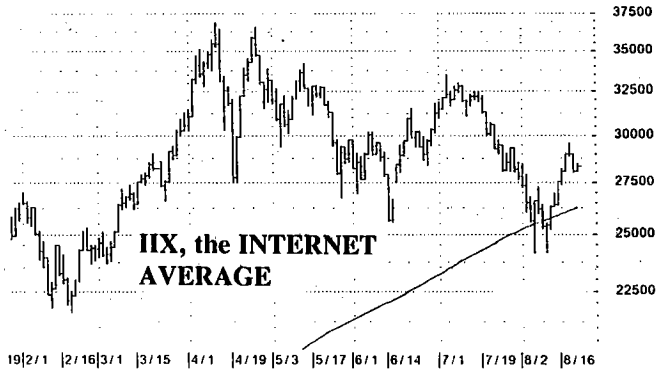
CHARTS: The bonds may have established a bottom, although I may be jumping the gun here. This is the September T-bond contract, and there might be a "double bottom" at 112 10/32nds. The bonds are far below their 200-day moving average, which now stands at just under 121. The first upside breakout would occur at 118. If the lows hold, I'd guess the bonds would lapse into a trading range.



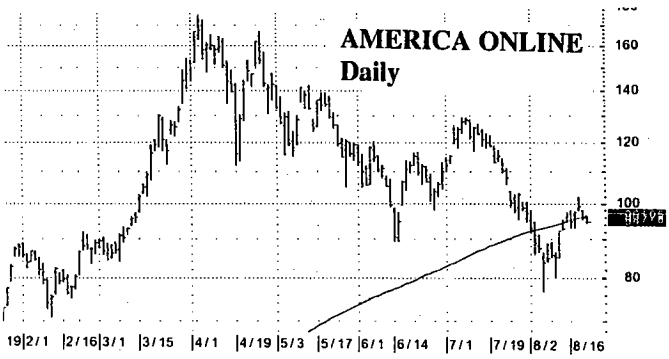
The Dollar Index (Sept.) hit a high of 104 and a fraction in mid-July, and since then it's been down to a low of 98.68. Next, a little rally, and most recently, a test of the lows. The Index is still above its 200-day MA, which stands at 98.50. The Dollar is crucial here, and I'm sure that the stock market would not take kindly to the Dollar Index breaking below its 200-day MA.



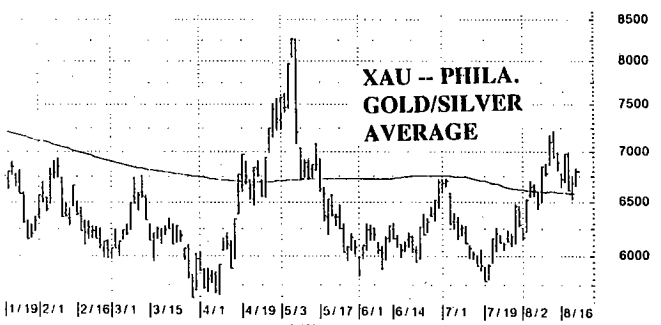
All eyes are now on the Internet stocks, since these are at the forefront of an entire new industry. IIX is the Internet Index, and here we see IIX forming a little double-top in the 366-369 area in April, then coming down to test its 200-day moving average. So far, we see a pattern of declining tops and declining bottoms, which, of course, is bearish. However, as this is written IIX is above its 200-day MA, and that's a plus. The last low on IIX was recorded on August 10 at 241, and the question is whether that low will hold.



America Online has been the volume leader for months. For a while, AOL was considered a proxy for the entire Internet, but now I think the stock stands on its own. With 17 million subscribers, AOL obtains 77% of its revenue from subscriptions. But many subscribers use AOL as an "easy way" to get into the net. However, more and more companies are offering entrance to the net free, and there's no question in my mind, but that the trend is towards free access to the net. So AOL has to dream up an increasing number of "goodies" to offer its subscribers. Personally, I'm not an AOL fan, but they don't run the market for Richard Russell. At present, AOL is sitting right on its 200-day MA, which now stands at 95. AOL was as high as 175 in early-August.



GOLD -- XAU is acting better than gold, the metal. So the obvious question is whether XAU (the gold shares) are leading gold, the metal? Historically, that has been the case, but gold has been painfully sluggish about rising. XAU has been above its 200-day MA for a few weeks, and the next target is to rally above 72. It can do it with just the least encouragement from the metal. That encouragement would entail Dec. gold getting above 265.



LATE NOTES: Sometimes you sense that it's almost mandatory that the market "complete" a move. It seems to me that the gods of the market will not rest easy until -- until the Dow advances to a new record high above its July 16 peak of 11209.84. If or when that happens, we'll then be able to gauge the strength or weakness of this market. In other words, we'll then see whether the rest of the market follows, or whether the many divergences prove too much for the bull.

NEXT MAILING: Sept. 8, 1999